

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Update on Cash Balance Benefit Program and
Voluntary Investment Program

ITEM NUMBER: 3

ATTACHMENT(S): 5

ACTION:

MEETING DATE: November 6, 2002

INFORMATION: X

PRESENTER: Ed Derman

I. CASH BALANCE BENEFIT PROGRAM

Summary

As of October 15, 2002 there were 14,931 participants in the California State Teachers' Retirement System (CalSTRS) Cash Balance (CB) Benefit Program. This is an increase of 2,683 participants (22 percent) since September 30, 2001. The Net Asset Value of the program was \$21.3 million as of August 31, 2002. This is an increase of \$5.6 million (3.6 percent) since August 31, 2001.

Update on Program Marketing

Since the last Board update in March 2002, staff has marketed the CB Benefit Program via promotional mailings, telephone follow-up, vendor shows, workshops, and marketing presentations.

Presentations were conducted at the CalSTRS 2002 Northern and Southern California Employer Institutes. As a result of those marketing efforts, three promotional presentations were scheduled and conducted in one southern California K-12 district and two northern California community college districts.

The process from the initial generation of interest to a formal resolution by a governing board to offer the CB Benefit Program often requires numerous follow-up meetings. This process can be even longer when the CB Benefit Program is just one item of an entire benefit package under negotiation. For example, staff is currently in contact and regularly following up with one Northern California community college district, one southern California community college district and one K-12 districts in both northern and southern California who are currently all in the negotiation process.

Staff strategically continues to mail notifications to all school districts in counties that make the data processing changes to implement the CB Benefit Program. Several presentations have been conducted as a result of these marketing efforts. In addition to the mail and telephone contacts, staff's travel activity included promotional and educational presentations and vendor booth representation.

The following activity occurred since the last update at the March Board meeting:

March 26, 2002

CB Benefit Program/VIP Overviews, Northern California Employer Institute, Napa

April 11, 2002

Vendor Booth, California Association of School Business Officials (CASBO), Anaheim

May 15, 2002

CB Benefit Program/VIP Overviews, Southern California Employer Institute, Indian Wells

June 5, 2002

Promotional Presentation, Northern California Community College District

July 17, 2002

Promotional Presentation, Southern California K-12 School District

July 18, 2002

Promotional Presentation, Northern California Community College District

August 22, 2002

Informational/Implementation Presentation, Los Angeles Community College District

October 3, 2002

Promotional Presentation, Faculty Association California Community Colleges (FACCC)
Vendor Booth, Anaheim

October 11, 2002

Vendor Booth, California Association of School Business Officials (CASBO), Ontario

October 15, 2002

Promotional/Educational Presentation, Southern California Community College District

Participating Employers

The following is a list of the 26 employers (within 15 counties) offering the CB Benefit Program to their part-time, substitute and adjunct faculty. Six of the employers (23 percent) are K-12 districts and 20 (77 percent) are community college districts.

<i>County</i>	<i>K-12 School Districts</i>	<i>Community College Districts</i>
Alameda	Berkeley Unified	Fremont-Newark
	Fremont Unified	Peralta
		Chabot-Las Positas
Butte		Butte
Contra Costa	West Contra Costa Unified	Contra Costa
Los Angeles	Mountain View Elementary	Antelope Valley
		El Camino
		Glendale
		<i>Los Angeles *</i>
Placer		Sierra
Sacramento	Robla Elementary	
San Diego	Grossmont Union High School	Mira Costa
San Francisco		San Francisco
San Mateo		San Mateo
Santa Barbara		Allan Hancock
Santa Clara		Foothill-DeAnza
		San Jose-Evergreen
Solano		Solano
Sonoma		Sonoma
Ventura		Ventura
Yuba		Yuba

**Pending receipt of resolution*

Program Growth

The table below indicates the program's growth for the first half of this year, in the areas of participation, contributions, and net asset value.

Period Ending	Jan, 2002	% change	Feb, 2002	% change	Mar, 2002	% change
Participants	13,241	0.98%	13,501	1.96%	13,824	2.39%
Employers Reporting Contributions	24	-0-	24	-0-	24	-0-
Total Contributions Received	\$19,024,000	3.32%	\$19,461,000	2.30%	\$20,197,000	3.78%
Net Asset Value	\$18,188,000	5.10%	\$18,528,00	1.87%	\$18,890,000	1.95%

Period Ending	Apr, 2002	% change	May, 2002	% change	June, 2002	% change
Participants	14,264	3.18%	14,487	1.56%	14,553	0.46%
Employers Reporting Contributions	24	-0-	24	-0-	24	-0-
Total Contributions Received	\$20,836,000	3.16%	\$21,561,000	3.48%	\$22,168,000	2.82%
Net Asset Value	\$20,058,000	6.18%	\$20,689,000	3.15%	\$21,417,000	3.52%

Rate of Return on Investments

The following table shows the rates of return on investments for the CB Benefit Program. The displayed rates reflect the increased diversification of the CB Benefit Program's portfolio that the Board adopted effective July 1, 2001.

Rate of Investment Return						
Period Ending	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	June 2002
1 Month	-1.343%	-0.319%	2.321%	-1.429%	0.081%	-3.849%
Fiscal Year to Date	-3.494%	-3.802%	-1.57%	-2.977%	-2.898%	-6.636%

Benefit Applications

The following tables represent the individual breakdown of benefit applications for the first half of 2002, ending June 30, 2002.

Applications Received

Period Ending	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	June 2002	FYTD Total	Overall Total
Retirement	3	5	9	5	5	6	44	108
Termination	6	9	6	5	7	5	59	168
Death	3	2	3	0	3	0	11	25
Disability	1			0	0	0	1	2
Totals	13	16	18	10	15	11	115	303

Completed Applications Ready for Payment

Period Ending	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	June 2002	FYTD Total	Overall Total
Retirement	3	4	10	2	8	6	44	108
Termination	5	7	5	4	3	13	61	163
Death	3	2	3	0	1	2	11	25
Disability	0	0	0	0	0	0	0	1
Totals	11	13	18	9	13	22	116	298

Benefits Paid

Period Ending	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	June 2002	FYTD Total	Overall Total
Retirement	3	1	7	8	5	9	45	108
Termination	3	6	7	4	3	13	60	160
Death	1	3	1	3	0	3	11	25
Disability	0	0	0	0	0	0	0	1
Totals	7	10	15	15	8	25	116	294

As of *October 9, 2002*, the CB Benefit Program has received a total of 343 benefit applications: 121 retirement applications, 188 termination applications, 3 disability applications and 31 death benefit applications. Of those 343 applications, 336 have been paid, one was not eligible for disability and six are awaiting completion of their one-year waiting period to qualify for their termination benefit.

II. VOLUNTARY INVESTMENT PROGRAM

Summary

The California State Teachers' Retirement System (CalSTRS) Voluntary Investment Program (VIP) provides a low-cost means for public school employees to invest on a tax-deferred basis to supplement their retirement. Administrative services are provided by CitiStreet, LLC under a new contract that became effective July 1, 2002. With the new contract, the VIP transitioned to a new platform that allows for Internet interaction for both VIP participants and CalSTRS staff. At the same time as the transition to the new platform, a wider range of investment choices was

made available to participants, as well as financial advice through the Internet or by speaking with a financial advisor.

New Features Offered By the VIP

Transition

On the weekend of August 17th, the CalSTRS VIP was converted to the new platform at CitiStreet. The conversion went very smoothly and on Monday morning, August 19th, VIP participants as well as CalSTRS staff could access VIP information via the CalSTRS Web site. The VIP now offers eleven core investment choices (with a twelfth option being available in late 2002), which provide the best combination of risk, performance, cost and diversity for VIP participants. Additionally, the self-managed account is still an available investment choice, and includes over 4,000 mutual funds, at least 600 of which do not impose any load or transaction fees. Another new feature is CitiStreet Advisor Services. Under this service, participants can access a modeling tool on-line or call a toll-free number and speak directly to a registered financial advisor to determine the appropriate asset allocation and level of investment necessary to achieve their retirement goals.

Investment Choices

The 12 core investment options, in order from lowest to highest risk, are:

- Citi Institutional Liquid Reserves Fund (Money market)
- Gartmore Morley Accumulation Fund (Stable value, which will be available late 2002)
- Vanguard Total Bond Index Fund (Bond)
- Dodge & Cox Stock Fund (Large cap value)
- Vanguard Institutional Index Fund (S&P 500)
- Vanguard Total Stock Index Fund (Broad stock)
- Fidelity Growth Company Fund (Large cap growth)
- Prudential Jennison Equal Opportunity A Fund (Mid cap value)
- Delaware Trend Institutional Fund (Mid cap growth)
- State Street Research Aurora A Fund (Small cap value)
- Brown Capital Small Company Institutional Fund (Small cap growth)
- Artisan International Fund (International stock)

Current Status of VIP

As of September 30, 2002, the CalSTRS VIP has 3,009 participants and asset values of approximately \$58 million. This is an increase of 12 percent in participants and 8 percent in assets from September 30, 2001 (despite the overall decline in asset values in investment markets in the past year). The attached charts display the following information:

- Growth in participation
- Total fund assets

- Assets by fund and self-managed accounts
- Average account balance by age group
- Average monthly contributions by age group

These data will continue to be provided to the committee in future program updates.

Marketing Efforts

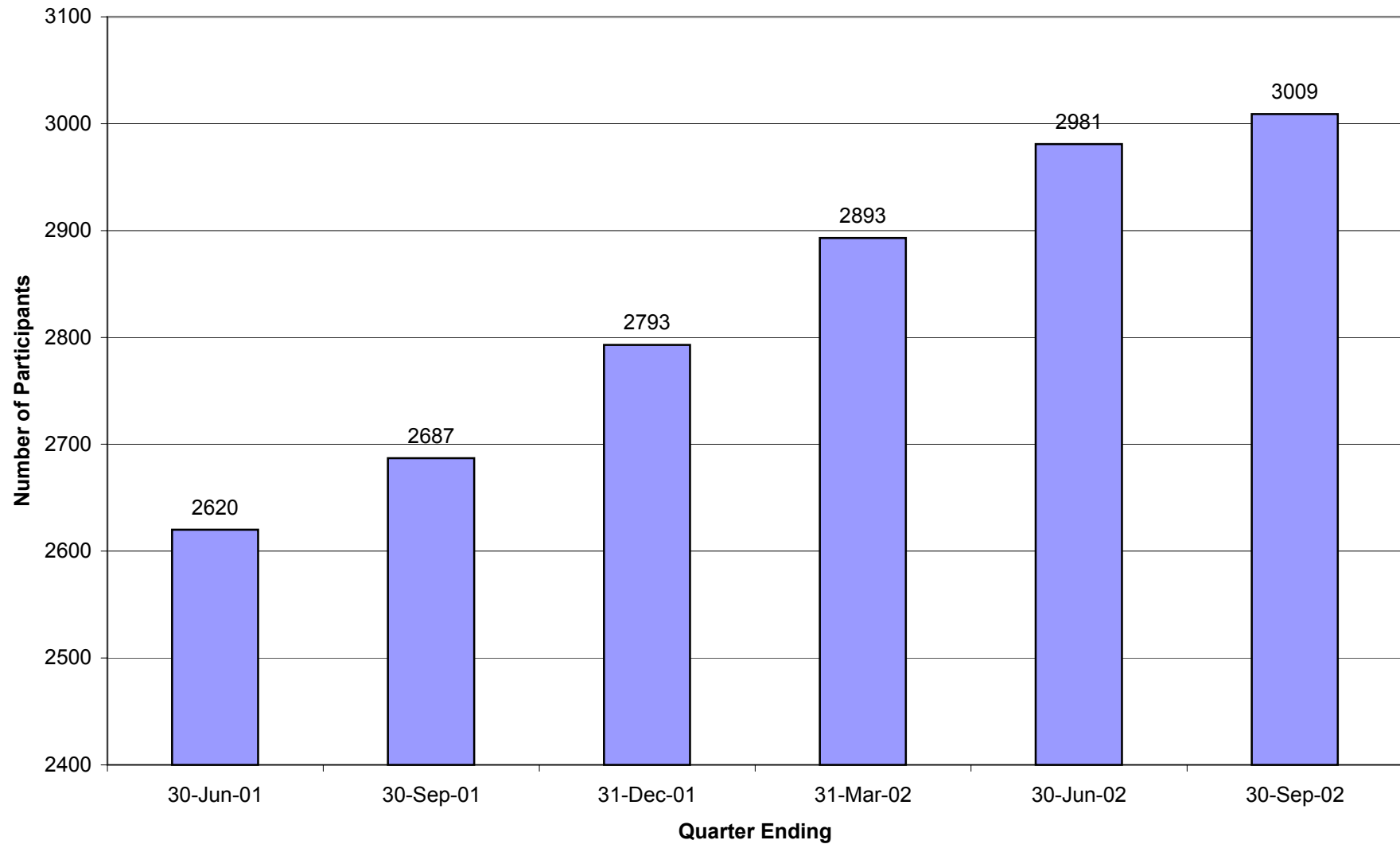
On August 21, 2002, a brochure was mailed to all current participants in the VIP announcing the enhancements to the program. Many participants took advantage of the new investment funds, and reallocated funds from the previously available asset classes to the new asset classes. Marketing efforts will continue with:

- A message in the October quarterly statement that describes and encourages participants to take advantage of the new Advisor Services.
- The inclusion in CalSTRS Bulletin, mailed to all active and inactive CalSTRS members in October, of a front page article promoting the new features of the VIP.
- A staff survey of all school districts in the state to determine which school districts require hold harmless agreements in an effort to identify target markets. The survey resulted in staff contacting 97 school districts to obtain a copy of their hold harmless agreement for CalSTRS legal review. So far, this has resulted in 38 agreements being sent to CalSTRS.
- The development of promotional flyers that will be mailed to 50,000 members in school districts that offers the VIP when the new VIP enrollment kits are available in early 2003.
- Continued mailing of the promotional flyer mailings that focuses on employees at different school districts.
- Continued marketing of the program, with the CB Benefit Program, at workshops and presentations attended by CalSTRS staff.

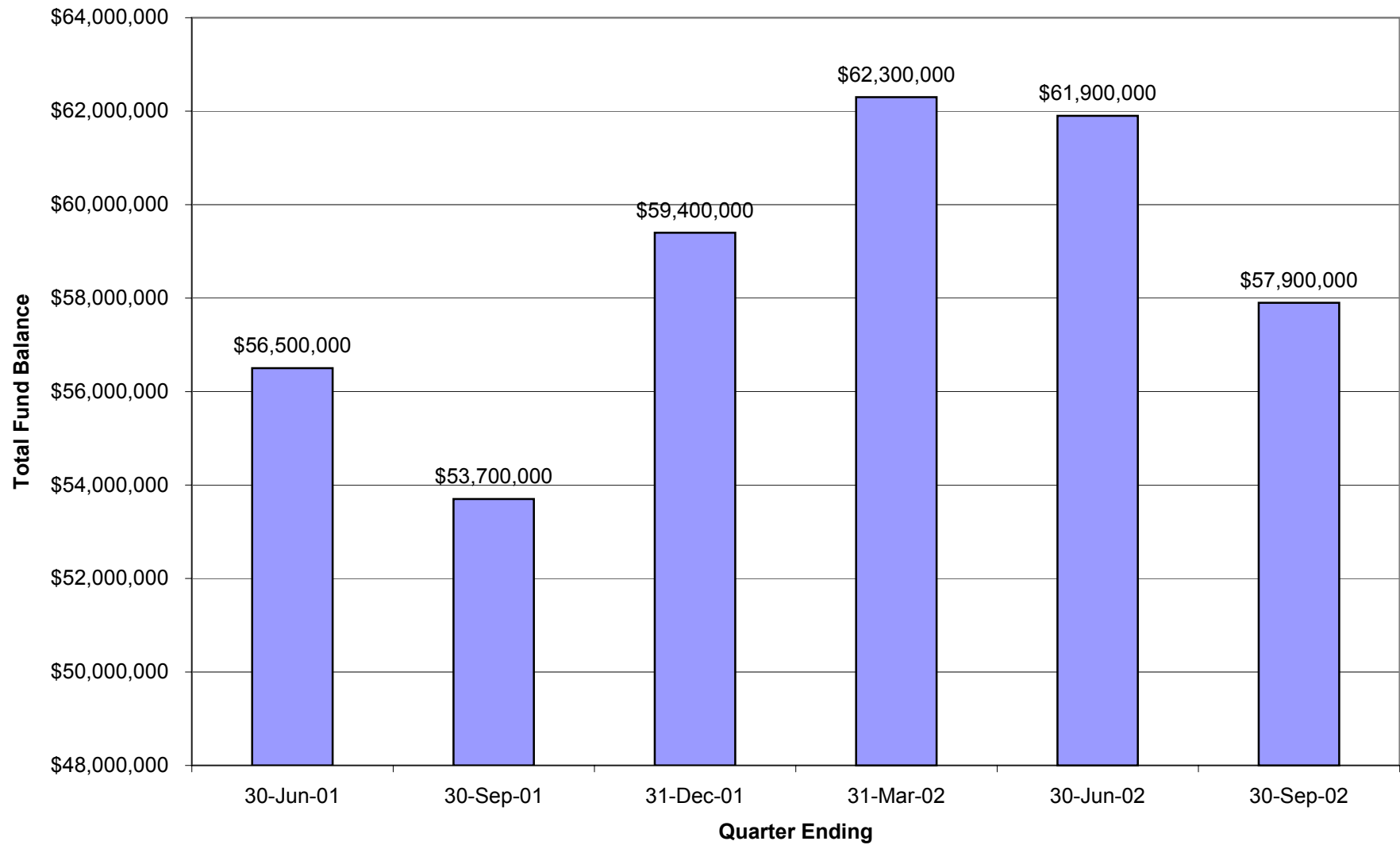
Advisor Services

Within the first 43 days of Advisor Services becoming available, a total of 188 participants (6 percent of all participants) have accessed the new advice feature, 105 through the call center and 83 through the Internet access. Of the 188 participant inquiries, 127 (68 percent) took action on their account, either increasing contributions, reallocating assets, or both.

Growth in Participation

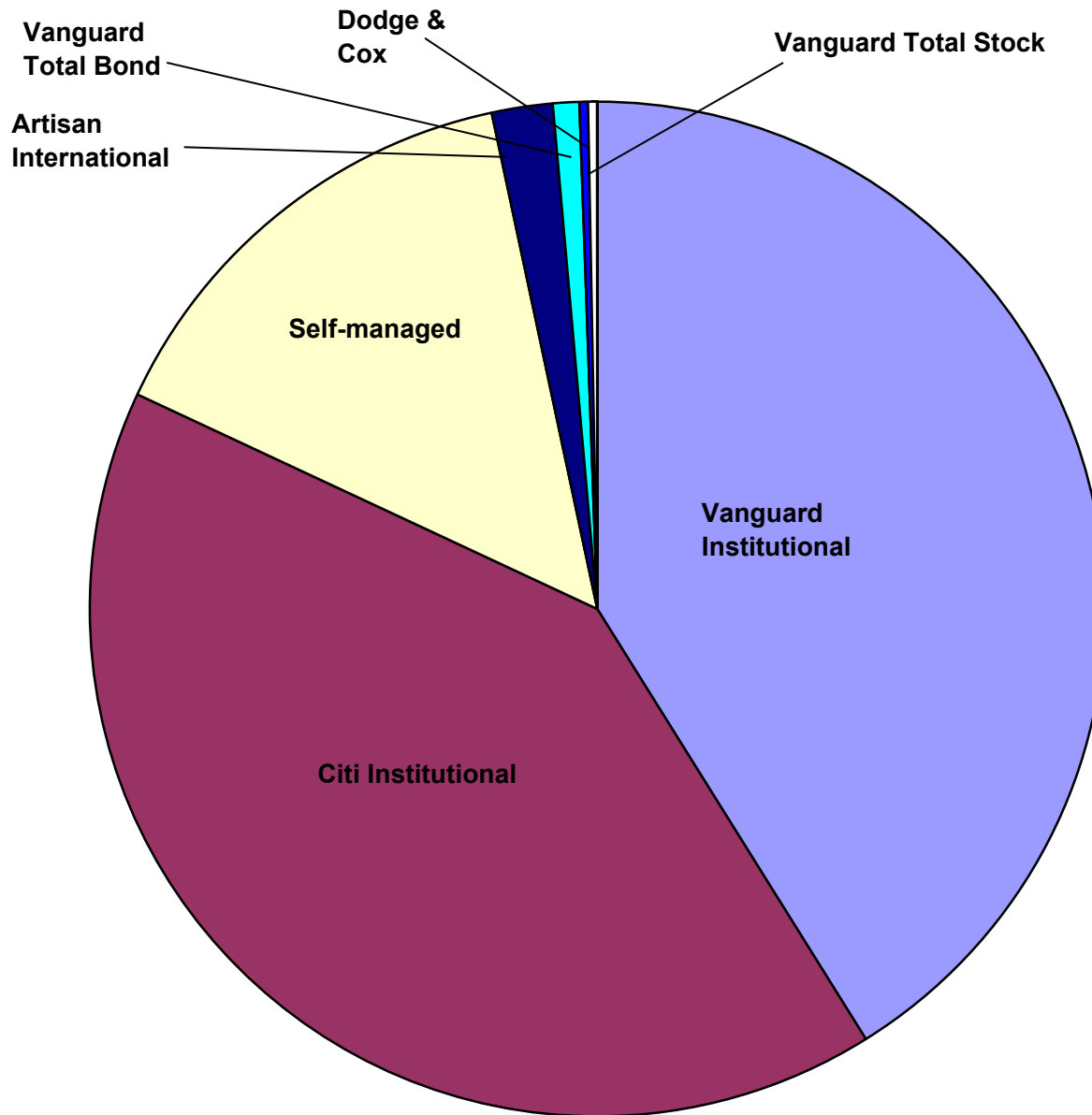


Total Fund Assets



Assests by Fund and Self-Managed Accounts

Attachment 3
Benefits and Services Committee Item - 3
November 6, 2002

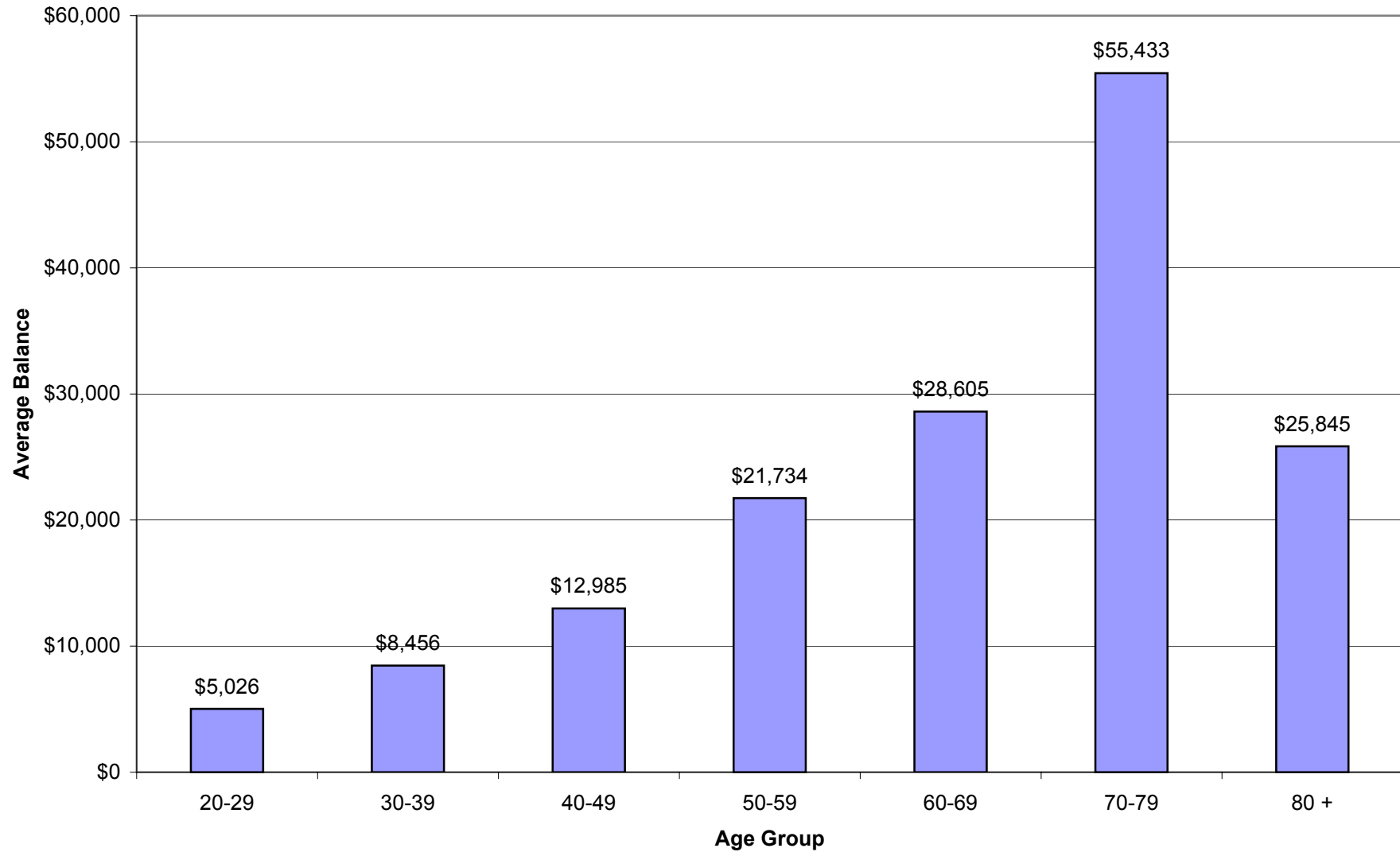


Dollars in Thousands

Vanguard Institutional (formerly the S & P 500)	\$23,600
Citi Institutional (formerly PNC Temp Cash)	\$23,400
Self-managed	\$8,500
Artisan International (formerly the EAFE)	\$1,200
Vanguard Total Bond	\$356
Dodge & Cox	\$196
Vanguard Total Stock	\$150
*State Street Research	\$30
*Brown Capital Small Co.	\$7
*Delaware Trend	\$5
*Prudential Jennison	\$4
*Fidelity Growth	\$3

* Not shown in graph

Average Account Balance by Age Group



Monthly Average Contributions by Age Group for July-September 2002

